JOINT MEETING OF THE
INTEGRATED RESOURCE PLANNING ADVISORY COMMITTEE
AND FINANCIAL SUBCOMMITTEE
MEETING SUMMARY

May 6, 2013, 4:00 p.m.

Colorado River Conference Rooms, Southern Nevada Water Authority
100 City Parkway, Seventh Floor, Las Vegas, Nevada

IRPAC Members Present	Tom Burns Kirk Clausen Thalia Dondero Bob Ferraro Mike Forman Carol Jefferies Bob Kasner	Jennifer Lewis Bobbi Miracle Phil Ralston John Restrepo David Scherer Virginia Valentine
IRPAC Members Absent	Yvanna Cancela Garry Goett Joyce Haldeman Warren Hardy	Katherine Jacobi Otto Merida Scot Rutledge Danny Thompson
Financial Subcommittee Present	Jay King Terry Murphy Gay Shoaff	Tom Warden Joe Woody
Financial Subcommittee Absent	Brian McAnallen	Jarmilla McMillan-Arnold
Staff Present:	John Entsminger Rick Holmes Zane Marshall	Frank Milligan Julie Wilcox Andy Belanger Katie Horn
Others Present:	Guy Hobbs	Brian Thomas

PUBLIC COMMENT
Ed Uehling distributed a letter to the committee, which is attached to this summary.

SUMMARY OF ACTIVITIES
The SNWA's Integrated Resource Planning Advisory Committee (IRPAC) and member agency financial subcommittee (Financial Subcommittee) met on Monday, May 6, 2013. The meeting began at 4:09 p.m.

Approve the April 1, 2013 meeting summary. There being no comments or questions, the meeting summary was approved by the committee.

John Entsminger, SNWA Senior Deputy General Manager, thanked those who attended the April 20, 2013 facilities tour. He noted the agenda included a tour of the Las Vegas Wash and an overview of SNWA activities there; a tour of the River Mountains Water Treatment Facility; and a presentation on the Third Intake project. Mr. Entsminger said that similar tours could be provided upon request for any committee members who were unable to attend the tour.

Outstanding Information Requests. At the April 1, 2013 IRPAC meeting, David Scherer asked if any other water agencies have conducted elasticity studies. Guy Hobbs of Hobbs, Ong & Associates said six studies have been identified and can be provided upon request.

Phil Ralston asked if any of the studies show material impacts in elasticity, and if the studies show a negative backlash in the quantity of use due to rate hikes. Mr. Hobbs said that while there is some backlash, water is still a relatively inelastic commodity. Mr. Hobbs added that elasticity assumptions have been factored into the models, and the committee can decide whether to adjust those assumptions or not.

Mr. Hobbs then showed revised pie charts depicting SNWA sources and uses of funds for FY 2013. These charts were revised at the request of Mr. Ralston so that bond proceeds were moved to the "sources" pie chart and expenditures from the capital construction fund were moved to "uses" pie chart.

Based upon the elasticity issue and the revised charts, Mr. Ralston asked the committee to reconsider a full commodity-based approach (Scenario 1), which had previously been taken off the list of options. He stated that the elasticity impact on Scenario 1 is less than one-half of one percent of the total incoming funds received. And, the overall impact is a shift of seven percent of total sources on the commodity charge already in place. Mr. Ralston said he feels that basing the rate on commodity is a fair approach.

Mr. Hobbs said that elasticity is an issue primarily on the wholesale side, but noted that there are some cascading effects on the retail side too. The discussion focused on the benefits of a commodity-based approach, as well as the disadvantages. The committee discussed that if rates are based on consumption only, there is a potential for a shortfall should people use less water than projected.

The committee agreed that it would not reconsider Scenario 1, and only the hybrid scenarios would remain under consideration.

Next, the revised *Customer Type Comparisons* charts were presented. Per the committee's request, the charts included the cost of water per 1,000 gallons. In addition, the charts noted the cost of water per 1,000 gallons without the fireline charge.

Dave Ebersold, Facilitator, reviewed consensus items reached at the April 1, 2013 meeting:

- The committee will not further consider consumption-only rate increases.
- The committee will not further consider infrastructure charge-only rate increases.
- The committee will not further consider fireline rates that increase proportionately.

He stated that this meeting's goals include:

- Make a decision regarding fireline rates (flat vs. inflation index).
- Make a decision regarding phased-in rates.
- Discuss how the hybrid rate should be divided among variable and fixed rates.
- Discuss rate examples and appropriate next steps.

John Restrepo asked if the committee ever discussed capping the index rate. Mr. Hobbs said the topic has been discussed briefly. He explained that for illustration purposes in modeling, three percent has been used, but the committee may wish to consider instituting a cap.

Review and discuss funding and revenue examples. The committee reviewed a slide titled *Rate Examples for Consideration*, which illustrated the 12 rate examples under active consideration. Mr. Hobbs then advised the committee that the next 35 charts provided in the presentation package illustrate all 12 rate examples by various customer types. Rather than discussing all 35 charts in depth, Mr. Hobbs informed the committee that he would just review a few examples.

<u>5/8-inch Residential Meter (Median Use) - Year 2021</u>

- The highest rate impact scenario was 25 percent commodity/75 percent infrastructure (no increase to firelines) averaged at $43.23 monthly.
- The lowest rate impact scenario was 75 percent commodity/25 percent infrastructure (firelines increase with inflation) averaged at $41.11 monthly.
- The difference is $2.12 or 5.2 percent.

Mr. Kasner proposed consideration of Scenario 3C (a 75 percent commodity/25 percent infrastructure rate phased-in beginning in 2014 with no fireline increase).

<u>Multi-Family Residential (Median Use) - Year 2021</u>

- The highest rate scenario was 25 percent commodity/75 percent infrastructure (no increase to firelines) averaged at $57.42 monthly.
- The lowest rate scenario was 75 percent commodity/25 percent infrastructure (firelines increase with inflation) averaged at $56.43 monthly.
- The difference is $.99 or 1.8 percent

<u>Casino/Strip Property (the Bellagio)</u>

- The highest rate impact for this customer was 75 percent commodity/25 percent infrastructure (no increase to firelines) averaged at $175,171 monthly.
- The lowest rate impact was 25 percent commodity/75 infrastructure (firelines increase with inflation) averaged at $164,313 monthly.
- The difference is $10,848 or 6.6 percent.

Mike Forman noted that this customer actually pays less in the year 2021 when the firelines are indexed. Mr. Thomas said that since this customer is a heavy water user, their high use offsets the increase in the firelines.

Religious (the Lakes Lutheran Church)
Mr. Hobbs said this type of customer is characterized by very low water usage, but a high need for fire protection, which produces an opposite effect as compared to the Bellagio.

- The highest scenario was 25 percent commodity/75 percent infrastructure (firelines increase with inflation) averaged at $757 monthly.
- The lowest scenario was 75 percent commodity/25 percent infrastructure (no increase to firelines) averaged at $682 monthly.
- The difference is $75 or 11 percent.

Referring to the *Customer Type Comparisons* chart on page 5 of the presentation, Mr. Scherer pointed out that the small industrial customer pays $8.79 per 1,000 gallons without the fireline, but $54.82 per 1,000 gallons with the fireline. He said he prefers no fireline increases as they impact small businesses materially. In addition, he said he hopes that a future agenda will consider some sort of relief for small businesses and churches such as the Lakes Lutheran Church.

Mr. Ebersold asked the committee to consider whether firelines should stay flat or be indexed. The committee discussed the impacts to businesses with firelines, particularly should the rate increase. The committee agreed to review the information before making a decision at an upcoming meeting.

The committee then addressed whether or not to phase-in rates and what to do with excess funds should revenues come in higher or expenditures are less than anticipated. Mr. Hobbs said that the committee can give direction that excess funds raised in 2014 and 2015 are a designated part of the Fund Balance to be used only to offset debt service. The committee agreed to adopt a phased-in approach with that caveat.

Referring to the 35 charts included in today's presentation, Mr. Forman said if you look at the relative number on every chart between 25 percent commodity and 75 percent commodity, the percentage change of the actual rates is minor. In trying to encourage conservation, Mr. Forman said he leans more toward the 75 percent commodity/25 percent infrastructure charge. Ms. Valentine said that she is skeptical of a heavier commodity charge because the rate structure does not differentiate between non-consumptive use and consumptive use. She also stated that she has concern about the fairness of firelines because the age of the property or additions/remodels can play a role as to how many firelines a business has whereas a similarly-situated property could have fewer firelines and a different impact.

Mr. Forman gave the example of his homeowner's association which has no swimming pools or golf courses. Everything is landscape and hardscape along city streets. The amount of water used is fixed. The Association has done all of the landscape conversions possible. There are parks which by zoning ordinances must remain green. The amount of water used cannot be cut any further. At the same time, this Homeowner's Association is paying $6,000 a month in infrastructure charges before a drop of water is used. Mr. Forman said that both scenarios are bad for his association. His point of leaning toward a commodity charge, however, is that even though his homeowner's association cannot conserve any more, there are users out there who can. And, any reduction in water use is good for the long-term viability of the Las Vegas Valley.

Mr. Kasner said that he looks forward to the committee's future discussions about conservation including rain sensor irrigations systems and drought-resistant grass. He reminded the committee that it is vitally important that the driest desert in the United States use less water. Mr. Scherer asked if conservation helped or hurt revenues during the economic slowdown. Mr. Entsminger said it is difficult to disaggregate how much of the reduced water use resulted from conservation versus foreclosures, residents leaving Southern Nevada, and lawns browning out. He noted that in 2002 the Las Vegas Valley consumed 325,000 acre feet of water (the highest year ever). By 2007, the valley consumptively used 265,000 acre feet of water (a reduction of 60,000 acre feet in five years). This reduction in water use occurred pre-recession. Mr. Entsminger added that total water sales have gone from flat to declining over the last ten years, which affects the wholesale and retail revenue sides of the equation.

Ms. Valentine asked if a blended rate structure, including infrastructure, makes revenues more reliable. Mr. Entsminger stated that water utility managers typically prefer to match fixed debt with fixed revenue. Mr. Scherer said that he leans toward a 50/50 rate structure for several reasons including, reliability needs, aging infrastructure, and climate change. Mr. Restrepo said there are other factors that also need to be considered: such as how do the sources of revenue align with the uses of revenue (stable versus variable). Also, public policy (conservation in the desert) needs to be weighed against the SNWA's financial liability. Mr. Entsminger suggested that staff revise the pie charts (*SNWA Sources of Funds* and *SNWA Uses of Funds*) without bond proceeds and construction expenditures to provide a better picture of what percentage of revenue is fixed and what percentage of revenue is variable.

As the meeting was coming to an end, the committee began a discussion about whether meter size and/or the tier rate structure accounts for consumptive use versus non-consumptive use. The meeting ended before a conclusion was reached.

The next IRPAC meeting is scheduled for June 24, 2013. There will be no meeting in July.

PUBLIC COMMENT

Ed Uehling commented on the chart titled *Customer Type* Comparison. He noted his concerns should rates be based on meter size. Mr. Uehling also commented on the SNWA's water banking and power agreements.

ADJOURNMENT
The meeting was adjourned at 6:06 p.m.